

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 CEA-01 /086 W
-----082312Z 002177 /63

R 080017Z APR 77
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 3108
INFO AMCONSUL MONTREAL
ALL OTHER CONSULATES IN CANADA (BY POUCH)

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 02527

DEPT PASS TREAS, FRB

E.O. 11652: N/A
TAGS: EFIN, CA
SUBJECT: PRELIMINARY GOC REACTION TO QUEBEC STUDY ON
COSTS OF FEDERATION

REF: A. MONTREAL 515; B. OTTAWA 1217

1. SUMMARY. GOC HAS GIVEN PRELIMINARY RESPONSE
CRITICIZING STUDY RELEASED BY QUEBEC GOVERNMENT MARCH 25
WHICH WAS INTERPRETED BY PROVINCIAL AUTHORITIES AS
SHOWING THAT QUEBEC HAD PAID SOME DOLS 4.3 BILLION MORE
TO FEDERAL GOVERNMENT THAN IT HAD RECEIVED FROM 1961
TO 1975. GOC CONCLUDES THAT WHILE COSTS/BENEFITS TO
QUEBEC OR OTHERS OF CONFEDERATION HAVE NOT YET BEEN
ADEQUATELY MEASURED, METHODOLOGY OF QUEBEC STUDY GREATLY
OVERESTIMATES FEDERAL TAX COSTS TO THAT PROVINCE. END
SUMMARY.

2. GOC FEDERAL-PROVINCIAL RELATIONS OFFICE RELEASED
SHORT (22 PAGE) STUDY APRIL 6 CRITICIZING MASSIVE (222
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PAGE) STUDY PUBLISHED BY QUEBEC GOVERNMENT MARCH 25
(REF A). PQ GOVERNMENT ASSERTED ITS STUDY SHOWED QUEBEC
HAD PAID IN TO FEDERAL AUTHORITIES SOME DOLS 4.3 BILLION
MORE IN TAXES IN CONSTANT 1975 DOLLAR TERMS THAN IT HAD
RECEIVED OVER FIFTEEN YEARS 1961-75.

3. FEDERAL STUDY ACKNOWLEDGES USEFULNESS OF QUEBEC

PROVINCIAL ECONOMIC ACCOUNTS, BASED IN PART ON WORK SINCE 1973 BY STATISTICS CANADA AND A FEDERAL-PROVINCIAL COMMITTEE TO PRODUCE CONSISTENT SET OF PROVINCIAL ECONOMIC ACCOUNTS.

4. HOWEVER, FEDERAL STUDY ATTACKS CONCLUSIONS DRAWN BY PROVINCIAL LEADERS THAT ACCOUNTS DEMONSTRATE QUEBEC HAS PAID MORE IN FEDERAL TAXES THAN IT HAS RECEIVED IN FEDERAL EXPENDITURES, AND THAT QUEBEC HAD RUN CURRENT ACCOUNT SURPLUS DURING MOST YEARS. IMPLICATION WAS THAT MEMBERSHIP IN CANADIAN CONFEDERATION HAS "COST" QUEBEC DEARLY IN NET FISCAL AND CAPITAL OUTFLOWS AND THAT SEPARATION WAS THUS PREFERABLE.

5. MOST IMPORTANT FEDERAL CRITICISM WAS ACCOUNTING FOR ALL IMPORT DUTIES AND EXCISE TAXES LEVIED IN QUEBEC AS PAID BY QUEBEC, SINCE ULTIMATE BURDEN IN MANY CASES WAS BORN BY THOSE OUTSIDE QUEBEC (SUCH AS AN AUTO IMPORTED THROUGH THE PORT OF MONTREAL BUT DELIVERED TO PURCHASER IN ONTARIO.) GOC ESTIMATES PAYMENTS OF THIS KIND AMOUNTED TO DOLS 4.2 BILLION IN 1975 DOLLARS. IT STATES THIS ITEM ALONE WIPES OUT ALMOST ALL OF ALLEGED EXCESS TAX PAYMENTS BY QUEBEC, AND ACCOUNTS FOR QUEBEC'S ALLEGED SURPLUS IN NET EXPORTS OF GOODS AND SERVICES.

6. GOC ALSO QUESTIONED USE OF GROSS DOMESTIC PRODUCT (GDP) INSTEAD OF GROSS NATIONAL PRODUCT (GNP) ACCOUNTING IN CALCULATING QUEBEC CURRENT ACCOUNT. WHILE NOT DEVELOPING ITS OWN ESTIMATES, FEDERAL STUDY STATES USE CONFIDENTIAL

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OF GNP INSTEAD OF GDP COULD MAKE A DIFFERENCE OF AS MUCH AS DOLS ONE BILLION IN QUEBEC'S CURRENT EXTERNAL BALANCE.

7. ALSO NOTED WAS LACK OF ANY ECONOMIC BENEFIT IN QUEBEC STUDY ASCRIBED TO FEDERAL ACTIVITIES SUCH AS DEFENSE, FOREIGN AFFAIRS, AND OPERATIONS OF THE BANK OF CANADA.

8. FEDERAL PAPER WAS PREPARED BY CLAUDE LEMELIN OF THE "COORDINATION GROUP" SET UP IN FEBRUARY UNDER PAUL TELLIER IN THE OFFICE OF FEDERAL-PROVINCIAL RELATIONS. GROUP HAS COMMISSIONED A NUMBER OF STUDIES WHICH WILL ATTEMPT TO GET A CLEARER PICTURE OF FEDERAL-PROVINCIAL ECONOMIC ISSUES AND INTERRELATIONSHIPS. INCLUDED ARE STUDIES ON INTERPROVINCIAL TRADE, CURRENT EXTERNAL ACCOUNTS OF PROVINCES, COST/BENEFIT ANALYSIS OF FEDERAL-PROVINCIAL ECONOMIC RELATIONS, AND DEVELOPMENT OF BETTER INPUT-OUTPUT DATA BY REGIONS.

9. THERE IS, HOWEVER, NO TIMETABLE FOR PUBLISHING

STUDIES. LEMELIN TOLD EMBOFF POLICY IS TO HAVE STUDIES ON HAND FOR USE AS NEEDED, BUT NOT TO ENGAGE IN EXTENSIVE NUMBERS GAME WITH QUEBEC. STUDIES WILL BE NATIONAL IN SCOPE, NOT MERELY ADDRESSED TO ISSUES RAISED BY QUEBEC, IN ORDER TO AVOID ANY APPEARANCE OF CONFRONTATION WITH QUEBEC OR NEGLECT OF REGIONAL ISSUES ELSEWHERE, ESPECIALLY WESTERN CANADA.

10. SUCH ECONOMIC STUDIES ARE RECOGNIZED AS HIGHLY POLITICAL IN THEIR IMPACT, AND ALL PARTIES ACKNOWLEDGE THAT SEPARATION ISSUE WILL NOT BE RESOLVED BY SALVOS OF ECONOMIC STUDIES. STUDIES, HOWEVER, WILL GO ON, AND

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COULD LEAD TO BETTER UNDERSTANDING OF ISSUES AND MORE ENLIGHTENED POLICY RESPONSE.

11. COPIES OF FEDERAL PAPER AND CONFIDENTIAL REGIONAL ACCOUNTS 1961-71 OBTAINED BY EMBASSY WILL BE FORWARDED TO INTERESTED END USERS.

12. COMMENT: GOC PAPER IS RATHER DRY DOCUMENT WHICH CONCLUDES PQ HAS NOT PROVED ITS CASE, BUT DOES NOT ATTEMPT TO SUGGEST THAT OTHER DATA WOULD PROVE OPPOSITE CASE. PAPER ALSO CONTAINS STATEMENTS THAT APPEAR IRRELEVANT TO DOMESTIC DEBATE, E.G. THAT ECONOMIC GROWTH AND PER CAPITA INCOME IN QUEBEC IS HIGHER THAN IN MOST OTHER COUNTRIES (BUT LOWER THAN IN CANADA AS A WHOLE). IT IS DOUBTFUL EITHER STUDY -- OR DEBATE OVER INTER-

PRETATION OF ACCOUNTS -- WILL HAVE MUCH IMMEDIATE
IMPACT ON POPULAR OPINION. ENDERS

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